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SUBJECT: PRESS SAYS FARMERS SUFFERING BECAUSE GVN GUESSED WRONG ON RICE

REF: HANOI 605; HANOI 498

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11. (SBU) Vietnamese farmers and newspapers are now openly critical of the Government of Vietnam (GVN's), accusing it of mismanaging the country's rice market. The GVN sets export targets and rice prices, seemingly to the advantage of the state-owned companies. Earlier this year central planners predicted that rice harvests would be poor and global rice prices would climb through the end of the year, thereby justifying restrictions on rice export. When both predictions proved off target, rice farmers in the Mekong Delta saw prices drop; now newspapers say that 1.5 million metric tons of rice is in danger of spoiling in local storage. Vietnam's press has begun to take the government to task over this "mismanagement" -- the popular newspaper Thanh Nien published the headline "Government ineptitude sending farmers to the poorhouse" -- offering a clear example of the need for continued economic reform of the GVN's management of agricultural commodities. End summary.

Government Lines up its Targets

12. (SBU) Agriculture, rice in particular, is one of Vietnam's most heavily regulated economic sectors. Each year the GVN sets export targets. State-owned enterprises (SOE), most notably the Vietnam Food Corporation (VinaFoods), get exclusive rights to export more than half of this "export quota"; much of which goes to meeting Vietnam's commitments to countries like the Philippines and Cuba. Private distribution and export companies compete for the remaining export quota. In all cases, however, export rights as well as the price and quantity for rice export contracts must be approved by the Vietnam Food Association (VFA). One of VinaFood's General Directors Truong Thanh Phong also happens to be the Chairman of the VFA.

Planning Foibles Set the Stage

13. (SBU) Early this year the Ministry of Agriculture and Rural Development (MARD) predicted a poor domestic rice harvest and steadily increasing global rice prices. Due to poor winter-spring crops in the northern region, MARD initially projected a national annual production of just 36 million metric tons of paddy rice (18 metric tons of milled rice), the same level of production as in 2007. These domestic supply concerns, combined with global food supply issues (reftels), led the GVN to predict rice prices would rise steadily from USD 370 at the start of the year to well over USD 1,000 by year's end. At the

same time, the GVN also estimated higher domestic demand and announced plans to increase the volume of rice in the country's strategic reserve to nearly 1.5 million metric tons, including additional seed stock for the next planting season.

SOEs Reap Early Profits

¶4. (U) Vietnamese rice export prices did surge from USD 370 per ton in February to USD 1,200 per ton in late April, prompting the Ministry of Industry and Trade (MoIT) to suspend rice exports, ostensibly to tamp down fears of a domestic rice shortage. In May, Vietnamese Prime Minister Nguyen Tan Dung ordered Vietnam's food export regulator, VFA, not to approve new rice export contracts for the remainder of the year, effectively cutting rice export targets from 4.5 million metric tons (in 2007) to just 4 million in 2008. This export ban was justified as a move to ensure domestic food security, but the GVN policy contributed to fears of a world-wide rice shortage and thus further increased the price that exporters lucky enough to have export quota could command.

¶5. (SBU) According to the Vietnam Food Association, Vietnam exported approximately 3.6 million metric tons of rice over the first nine months of this year. Of the 3.6 million metric tons, industry contacts estimate that SOEs exported close to 3 million metric tons. Private exporters think this is because regulators rig the system in favor of the SOEs. All exporters must apply to VFA for approval to export, and private exporters contend VFA adjudicated the opaque approval state-owned rice export contracts while rejecting private rice export contracts.

¶6. (SBU) Industry insiders assert that SOEs bought significant stocks of rice early in the year, anticipating that export prices would rise significantly. As a result, it was rice traders rather than farmers who reaped the majority of the benefit from rising export prices. According to market surveys, the reference price that buyers paid Vietnamese farmers for rice

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varied from US 403.18 for one ton of rice in March, US 470.37 per ton in April, US 592.55 per ton in May, US 549.79 per ton in June, US 537.57 per ton in July, US 488.70 per ton in August, to US 458.16 per ton in September. During this same period, export prices shot to US 1,200 per ton. Farmers also missed out because some of the price volatility was a function of traders and distributors building inventories early in the year in anticipation of rising prices -- little rice was actually purchased from farmers when prices were at their peak.

Then the Tide Turned

¶7. (U) By mid-summer Vietnam's rice harvest was proving significantly better than expected, increasing by over 1.5 million metric tons over the same period of last year. One top rice processor and exporter estimated that Vietnam will harvest 37.5-38 million metric tons of paddy rice (19 million metric tons of milled rice) in 2008. At roughly the same time, rice-importing countries had secured adequate rice supplies and producers were already beginning to expand production. The GVN authorized VFA to resume approving rice export contracts in July. When Vietnamese newspapers reported that Thailand would sell 4.4 million metric tons by September 30 to avoid spoilage, domestic Vietnamese prices fell below USD 500 per ton, less than half of the price in early May. Popular newspapers (e.g., Thanh Nien) began to publish stories focusing on the collapse in price of rice and inventories "rotting in the bins" in the Mekong delta. At the same time the price paid for harvested rice was dropping, the cost of inputs like fertilizer and pesticides surged due to rapid inflation.

The Press Points the Finger at the GVN

¶8. (SBU) "Government ineptitude sending farmers to the poorhouse," a front page article in Thanh Nien (Youth) proclaimed on October 6. Newspapers like Thoi Bao Kinh Te Sai Gon (Saigon Economic News) argue that the government must ensure

national food security, but the GVN is choosing a strategy that hurts farmers. They assert that against this backdrop of falling prices and rising costs (ref B), farmers will be tempted to grow less rice, making the task of ensuring national food security more challenging. The press points out that the best way to ensure national food security is to implement transparent and predictable policies that encourage rice cultivation; what farmers need most is a stable market offering a reasonable price for their products.

Private Exporters Blame the SOEs, Call for Transparency

¶9. (SBU) One private rice exporter in the Mekong Delta further blames Vietnam's opaque rice export mechanism for distorting pricing. Private exporters must obtain regulatory approval from the VFA for every rice export contract (with a maximum term of two months), including the volume and price of each contract the private exporter plans to sign. Planning is difficult for private sector exporters because the GVN fixes rice export quotas each quarter without ever making public the quota fill rates. If exporters think they want to negotiate a rice export contract, they must ask the VFA if there is export quota available, and "the answer is usually no", one private rice exporter explained.

¶10. (SBU) Private sector rice exporters believe the GVN manipulates rice exports to the benefit of state-owned Vinafood and its affiliated companies. As the state regulator for export volume and price, the VFA often mandates export prices for private rice export contracts above market price so that international buyers shy away. VFA argues that the approval process ensures that naive exporters are not taken advantage of, but exporters contend the GVN should instead apply a uniform minimum export price. Private exporters also suggest more transparency would solve the problem: by publishing annual rice export targets and the percentage reserved for SOEs, the GVN would allow private sector exporters to make plans. Private traders also point out that the prices for SOE export contracts are not published, creating an atmosphere of general suspicion in the industry.

Comment:

¶11. (SBU) Vietnamese farmers are understandably disappointed since they had visions of selling new crop rice at high prices. These hopes were dashed as prices fell, though only after

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state-owned companies like Vinafood I and II made money off their privileged position as exporter and one-step removed regulator of exports. As the media blames the GVN for mismanaging the rice industry, the unspoken subtext is that SOE profit is coming at the expense of farmers. While the rice example is particularly egregious, the government's bias toward state-owned enterprises is one the biggest challenges confronting the private sector in Vietnam. End comment.

¶12. (U) This cable was coordinated with Embassy Hanoi.
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